

DOCUMENT RESUME

ED 153 149

CG 012 498

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TITLE Common Types of Financial Problems: Brief Descriptions and Suggested Solutions.
INSTITUTION Virginia Polytechnic Inst., Blacksburg. Extension Div.
SPONS AGENCY Office of Education (OHEW), Washington, D.C.
PUB DATE Sep 77
GRANT G007604715
NOTE 51p.; For related documents see CG 012 499-501

EDRS PRICE MF-\$0.83 HC-\$3.50 Plus Postage.
DESCRIPTORS Client Caseworkers; *Counselors; Credit (Finance); *Expenditures; Family Income; *Financial Problems; *Financial Services; Guides; *Money Management; Unemployment.
IDENTIFIERS *Credit Counseling; *Debtors

ABSTRACT

This guide is one of a series of four such guides that are directed toward those people who provide financial counseling to consumers who have problems with overindebtedness. Recognizing that many who serve as financial counselors have little training in the field (for example, clergymen or social workers), the guides are not offered as complete courses in financial counseling, but as practical prototype manuals focusing on the most important areas for counseling: basic techniques, rehabilitative financial planning, and an overview of common problems with credit and debt. By using examples of client-counselor exchanges, as well as detailed exercises for the counselor, the guides help the counselor increase his/her effectiveness with the client. This particular guide examines various types of problems that people have with credit and debt, discusses underlying causes of the problems, and offers some general suggestions for solving them. (Author/FC)

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COMMON TYPES OF FINANCIAL PROBLEMS

Brief Description and Suggested Solutions

By
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Consumer Debt Counseling Project
Extension Division
Virginia Polytechnic Institute and State University
Blacksburg, Virginia
September 1977

CG 012 498

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Funded by
The U.S. Office of Education
Grant Number G007604715
in cooperation with
Extension Division
College of Education College of Home Economics
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24061

This module has been submitted to a member
of the Virginia State Bar for review.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, W.R. Van Dresser, Dean, Extension Division, Cooperative Extension Service, Virginia Polytechnic Institute and State University, Blacksburg, Virginia 24061.

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FOREWORD

This series of modules was developed at Virginia Polytechnic Institute and State University with the assistance of a grant from the U.S. Office of Education. The modules are designed to fill the need for learning materials in the rapidly expanding field of family financial counseling.

The effects of inflation and dramatic increases in the costs of food, utilities, transportation and medical expenses have left many Americans deep in financial trouble. Many individuals and families find themselves overindebted with consumer credit bills that they cannot pay, partly due, to increases in living expenses. Others, in response to advertising pressure and the lure of the "good life," have gone over their heads in debt trying to "keep up with the Joneses," These people often search for someone who can help them out of their financial difficulties.

There is a wide range of people who can, and often do, provide financial counseling to those who have problems with overindebtedness. The one type of agency that specifically deals with these problems is the Consumer Credit Counseling Service, with some 200 affiliated agencies throughout the country. People who live in areas without a CCCS turn to social service agencies, social workers, clergymen, extension agents, home economics teachers, community action programs, credit unions and other credit lenders, in addition to other sources for help. Many of the above professionals have no specific training in how to deal with problems of personal or family finance and find it impossible to locate educational materials to teach them how to give assistance with financial problems.

The field of "financial counseling" is very broad and includes such areas as investment counseling, estate planning, budget counseling, and even consumer education. These modules specifically address those counselors who assist people with problems of overindebtedness or over-extension of consumer credit. The broader term "financial counselor" is used throughout the modules although the material presented deals specifically with issues that relate to the function of a debt counselor--one who assists people who have problems with credit and debt.

The materials we have developed are referred to as "modules." Using the modular approach, a broad field, such as financial counseling, is broken down into its component parts. Then, each part of the field is addressed by a separate packet of instructional materials, called a module. Each module is self-contained and needs no other reference materials or special equipment to be used effectively.

The primary strength of using the modular approach for these particular materials on financial counseling is related to the types of people who are most likely to use them. Most of the people who want additional training in financial counseling are already employed

full time. They cannot afford the time to read an entire manual or the expense to travel to a workshop. But they can take advantage of any free time in their busy schedule to work through all or part of a module. In effect, they can use time available at work for training and professional development without sacrificing on-the-job effectiveness.

This module is one of a series about family financial counseling. Neither this module by itself, nor the series of four produced by this project, represents a complete course on the topic. The objective of the project was to identify the areas of greatest need for training materials in the field, and to develop prototype materials in the most important areas.

To determine in which areas of family financial counseling there existed the greatest need for new instructional materials, we surveyed a wide cross-section of people who work directly or indirectly with people and their financial dealings. Consumer credit counselors, welfare agencies, credit union personnel, social workers, extension agents, clergymen, bankruptcy trustees, community action program workers and others were included in both our nationwide and in-depth Virginia surveys.

Our findings indicated that the greatest need for new materials existed in the areas of:

1. Basic counseling techniques
2. Developing a rehabilitative financial plan
3. An overview of the types of problems people have with credit and debt

The above areas are listed in their reported order of importance.

The project staff, keeping within its budget and time limitations, responded by developing four modules. Two of the modules present instructional materials in basic counseling techniques. Another deals with the process of developing a rehabilitative financial plan for an individual or family experiencing financial problems. The fourth is an overview of the types of problems that people have with credit and debt, with some suggestions for solutions for each type of problem.

These four modules barely scratch the surface of a field in which twenty or more training modules could be developed for a complete course in financial counseling. We hope that these modules will provide the direction for future development of a complete set of training materials for persons who want to develop skills in this field.

In response to a growing consciousness of sex-typed references in written materials, the authors have taken great care to avoid sex-linked wording. English is the only language in which this problem exists and to write without using "he, she, him or her" is difficult. In some cases the use of these reference words is required to retain the readability of the materials. In the passages in which sex-referenced words are used, the authors intend no sex-related stereotyping since, of both indebted clients and financial counselors, half are likely to be women and half men.

Introduction

A casual glance at the bankruptcy statistics of recent years is enough to make one aware that many American individuals and families are having severe financial problems. Looking deeper, one will find that financial problems are not confined to just the few people filing for bankruptcy.

The General Mills American Family Report (1974-75) contains some very disturbing findings based on a national survey of 1,247 families. They report that of the families surveyed:

- 38% had to dip into savings to meet current bills
- 54% argue about money
- 27% owe more money now than a year ago
- 37% reported a lower standard of living than a year ago
- 56% feel insecure about their financial future
- 65% say inflation is having a serious impact on their family.

Using the results of this and other studies one could be reasonably safe in estimating that a quarter of all American families are experiencing some financial problems.

For the financial counselor whose job is to assist families and individuals with financial problems, it is valuable to know what different kinds of problems to look for. There are a number of different causes of financial problems.

This module will examine various types of problems that people have with credit and debt. For each type of problem we will attempt to point out the underlying cause of the problem, and some general suggestions about how to solve it.

Many people who seek financial counseling will have a combination of two or more of these problems. For these clients, the counseling process is no different, just more complex, as you discover all the problems and deal with each one.

This module, like the others in this series, is written with the basic underlying philosophy of individual responsibility. People are responsible for the way they choose to manage (or not manage) their money. If the way they handle their money results in a financial crisis, they alone are responsible for that situation. More important for a financial counselor, the overindebted client is also responsible for resolving the financial problem situation. The fact that an overindebted person seeks professional assistance with a financial problem is an indication that (s)he is taking responsibility for the problem.

The financial counselor, in turn, is responsible for discovering the nature of the client's problem and for providing sound advice and proper assistance to enable the client to resolve the problem. At no point, however, does the counselor assume responsibility for a client's problem.

Clients frequently blame the weather, the state of the national economy or other outside factors as being responsible for their problems. Without debating this point, the fact remains that the client has a personal financial problem. One could wait for the weather or the economy to change, or one can assume the responsibility for dealing with the problem. Either way it is the client's choice, but only by taking full responsibility for the problem can the client develop personal commitment to solving the problem.

Sometimes tragic events leave people in financial distress. Death, disabling injuries or serious diseases occur that cannot be anticipated in even the best planned budget. In many such cases, assistance is available to an individual or family from a wide range of sources. Even in these cases it is the clients' responsibility to seek available assistance and to do everything they can to solve the problem that they are experiencing.

NOTE: There is only one set of exercise sheets provided for this module. If more than one person is expected to use this module, we recommend that you make and use photocopies of the exercises so that the module can be re-used by others.

WHAT CAUSES FINANCIAL PROBLEMS?

First, let's look at the characteristics of a healthy budget--one that works. For an individual or family that doesn't have financial problems, the situation is that their income equals their living expenses plus their debt payments. The simplest way to show this is by using a mathematical equation:

$$\text{Income} = (\text{Living Expenses}) + (\text{Debt Payments})$$

Next, using this same kind of simplified way of looking at a budget we can say that a financial problem occurs when a situation exists where the sum of living expenses plus debt payments is greater than income. In this situation there simply is not enough income to pay all the bills.

In this discussion we will assume that everybody starts out even. Everyone begins with a balanced budget. What we will be looking for as causes of financial problems will be those things that unbalance the budget. There are basically three things that can do this:

1. Decrease or loss of income
2. Increase of living expenses
3. Increase of debt payments

There is also the possibility of a combination of any two or all three things happening together. An example of this would be the wage earner whose illness results both in loss of income and increased medical expense.

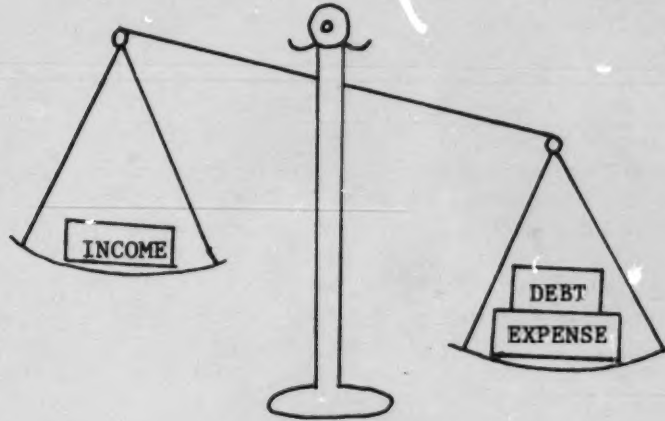
Dividing a budget into these three categories--income, living expenses, and debt--gives us a framework around which to present the types of things that happen which result in financial problems. It also gives us a way of approaching solutions to the problems.

To keep this formula for a balanced budget as simple as possible, we have not included savings. Savings is the key element that makes a financial plan work. Money that is set aside (saved) is considered here to be a part of living expenses. This budget item is an essential element in an effective financial plan.

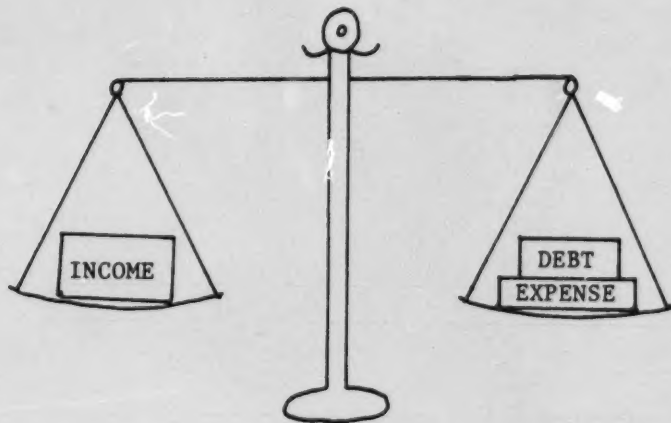
In the following sections of this module, we will present the types of things that happen that result in financial problems, first with income, then expenses, and then debt. Within each section there will be some general information about what to do in the various situations to solve the problem.

It should be noted when using this simplified framework that a balanced budget occurs when income equals expenses plus debts. In the very simplest of terms, financial problem solving is a process of increasing income or reducing expenses and/or debt payments enough to make the budget "balance." One goal of financial counseling is to make the amount of income equal to the sum of living expenses plus debt payments.

If you think of a family's financial situation as a balance scale, you can see that a financial problem occurs when the expense and debt side is heavier than the income side.



Financial counseling is really just a process of getting clients to add enough to the income side, or subtract enough from the expense and debt side so that the scale will balance.



TURN TO APPENDIX I AND COMPLETE EXERCISE 1. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

DECREASE OR LOSS OF INCOME

Problems with income can usually be classified as either temporary or long-term (sometimes even permanent). We will first discuss problems of temporary decrease or loss of income.

Temporary Decrease or Loss of Income

In recent years, parts of the national economy have not been very stable. Many economic factors have worked together to reduce demand for some products, resulting in occasional business slow-downs. For the workers producing some goods and services this has, at times, meant short-term layoffs.

Most workers are able to get unemployment benefits, but the size of an unemployment check is usually much less than a normal paycheck. Also, due to the red tape involved in applying for unemployment, there is often a period of weeks before the unemployment checks start to arrive.

For the person who has no cash reserve (savings) this can create, temporarily, a real financial crisis. Even for those with some savings, unemployment can cause difficulties in keeping up with living expenses and debt payments.

Another temporary problem with income arises when a wage-earner becomes sick or injured. After all sick leave is used, there comes a time when income stops. With sickness and injury the unemployed person is also not eligible for unemployment benefits, as one must be able to work in order to collect unemployment compensation.

Solutions. There are things that can be done to cope with temporary income loss in each of the three budget categories--income, expense, and debt.

For the income portion, all available sources of assistance should be sought. Apply for unemployment compensation (U.C.). This will give the client some income. Apply for food stamps. The amount of U.C. for a single person will usually be over the limit for eligibility for food stamps. Most families, however, will be able to receive food stamps. Another alternative is to look for part-time jobs to supplement U.C.

Living expenses should be cut to the minimum during periods of reduced income. Don't buy clothes. Cut out the purchase of non-essential food products such as candy, soda, junk foods and convenience foods and substitute less expensive items. Use the car less to cut back on gasoline costs. Cut down or eliminate alcohol consumption. Check to see if medical insurance coverage continues during unemployment. If not, apply for medical assistance at the same time and place as for food stamps.

Debt payments may be reduced or waived for short periods with the permission of the creditor. This last thought is important. Clients

are using creditors' money as a temporary trust and they have a responsibility to repay. The money was lent when the creditor determined that the client had the ability to repay the loan. When the client's situation changes and the ability to repay is lessened, the creditor has a right to know, and the client has a responsibility to inform the creditor.

Many people try to hide from their creditors in times of financial crisis. This has the opposite effect than the client wants. When creditors are informed of temporary financial problems, they are usually willing to waive or reduce payments. When not informed, they often react to missed or partial payments by applying strong collection pressure.

Clients should bargain with creditors on the basis of how much money is available for debt payments. They may ask to waive some payments. On other bills, they may ask to pay the interest only. Or they can negotiate for half-payments, or whatever they can afford to pay. If the financial counselor works in an agency that deals directly with creditors, the counselor can negotiate on behalf of the client.

There are many stereotypes about bill collectors being mean and nasty. These myths are usually supported by people who tried to hide from their creditors. Most people are surprised to find, when they deal honestly with their creditors, just how cooperative and understanding the "bill collectors" can be.

Permanent or Long-Term Loss of Income

Following is a list of events that often result in a permanent or long-term loss of income. Severe financial problems frequently accompany these events.

- Disabling diseases
- Heart attacks or strokes
- Disabling injuries
- Retirement
- Fired from a job
- Closing of a factory or business
- Death of a wage earner

Retirement is the only one of the listed events for which one can plan ahead. The others usually happen quickly and leave the affected person and the family in a crisis situation.

Solutions. Generally, the solutions are similar to those for temporary loss of income. To obtain income, apply for unemployment compensation (U.C.), Social Security, welfare or pension, whichever applies. Supplement that by applying for food stamps and medical assistance.

Living expenses must be changed substantially and scaled down to reflect the amount of income that will now be available. In cases where

there are medical problems, the hospital and the welfare agency should be notified immediately. Apply for medical assistance when applying for food stamps, even if the client has medical insurance. If the insurance doesn't cover all medical costs, hospitals and welfare departments usually have funds to cover bills that people cannot pay. These agencies must, however, be notified immediately, since they can only cover expenses that occur after they are notified. If the client qualifies for medical assistance through the welfare program, this will cover all medical costs, usually for the entire family.

Long-term financial problems often force people into a completely different lifestyle. The changes are often dramatic and traumatic. It may mean selling a house, a car or other possessions. It may require moving to a less expensive apartment.

Debt is frequently the most difficult area to deal with for people with a long-term loss of income. There may not be any money to put toward debt payments. First check to see if the client has sickness or disability insurance on loans (this is automatically included in most loans by credit unions). People frequently have this type of insurance on home mortgages and loans from consumer finance companies. If there is insurance, notify the creditor and fill out the necessary forms. The insurance will then pay the monthly payments until the debtor recovers.

If there is no way of paying the bills, notify the creditors of the circumstances. What happens then is largely up to the creditors. The creditors may simply write off the debts as uncollectable or they could sue for a judgment in court. They could also turn accounts over to their own bill collectors or to a collection agency.

Clients with no money to pay off their debts have few options. They can let the judgments pile up and ignore them. Then if their financial situation improves in a few years, the creditors have a right to request payment. If collection pressure is too great, clients can consult with an attorney about filing for bankruptcy.

Irregular Income

There are a number of special income-related problems that can cause financial problems. One of these is irregular income. The types of people who fall in this category are seasonal workers, people in the building trades and people in sales who are paid by commission.

The best way for people with irregular incomes to prevent financial problems from occurring is to set aside (save) enough money to use as a backup for the lean times when income stops or drops. Unfortunately, many people don't do this.

Another factor often compounds the problem of people with irregular incomes. This is especially true of sales people. The problem is that they estimate too high for income when they are planning their budget. This kind of optimism seems to be a part of the personality makeup of

some people. Frequently, however, this tendency to over-estimate income leads people to contract debts that they later cannot pay.

Solutions. The first step in solving financial problems caused by irregular income is to get clients through the immediate crisis first. Expenses must be cut back as much as possible and debt payments usually have to be negotiated down. When income goes back up, expenses must be held down, debt payments brought back up to normal and a savings account must be started. The only long-term solution for financial problems caused by irregular income is to set aside enough money to use as a backup when income drops.

TURN TO APPENDIX I AND COMPLETE EXERCISE 2. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

PROBLEMS WITH EXPENSES

In the simplest terms possible, the major underlying problem in the area of expenses that causes people to get into financial trouble is that their monthly living expenses are too high. Most financial counseling clients don't realize this, because generally the event that leads them to seek assistance with their problem is some kind of crisis situation.

Therefore, they mistakenly think that the problem is the crisis at hand. These kinds of crises are often of the types listed below:

- unexpected medical expenses
- major dental costs
- car repairs
- uninsured losses
- house repairs
- replacement of appliances
- taxes due
- annual insurance premiums due

Every expense budget should have two components. First, money should be budgeted to cover regular monthly expenses. Second, money should also be set aside in a reserve account (savings) to be available to pay for expected or unexpected irregular expenses. The above listed "crises" are events that should be expected to happen, since they happen to almost everybody. So, although a crisis may appear to be the cause of a financial problem, the larger, underlying cause is the failure to plan ahead.

You will find that people with financial problems often have high fixed expenses. Fixed expenses are regular monthly expenses such as shelter cost (housing + utilities), food, transportation, debt payments. When a person or family has high fixed expenses, most of the paycheck is committed before it is even received. This leaves very little discretionary income--income that is not committed to a certain expense, or that is free to use in any way one wishes.

The more discretionary (or free) income there is in a budget, the more flexible it is. And the more flexible a budget, the better able it is to handle unexpected expenses.

The national economy over the last few years has generated price increases due to inflation and soaring costs in specific areas. Rapid increases in the cost of utilities, food, gasoline, medical treatment, insurance, etc., have created for many people a situation in which fixed costs have risen rapidly and have robbed budgets of their flexibility. This has left many Americans vulnerable to problems that arise when unexpected expenses occur.

Following are brief discussions of some specific problem areas with expenses. These are areas that should be closely examined by a

financial counselor when looking for causes of financial problems and for solutions.

Shelter Cost (Housing)

Back in the "good old days" (only a few years ago) it was generally recommended that a family keep their total shelter cost down to around 20-25% of their income. Thus, for a family earning \$1000 per month, the recommended shelter cost was \$200-\$250 per month.

In keeping with the reality of skyrocketing shelter costs, it may be necessary to increase the percentage of income used for this budget category. It is probably more realistic today to allow somewhere between 25 and 35% of income for shelter costs.

The crunch in shelter costs hits some types of families harder than others. Large families must spend more for housing than small families or singles. Also, low income families often must spend a higher percentage of their income on shelter, since there is a minimum level of shelter cost. For example, the income for a family of four from AFDC (welfare) varies from state to state, averaging around \$400 per month. The least expensive two-bedroom apartment in most areas of the country, including heat and utilities, is around \$200. Thus, if these people cannot find subsidized low-income housing, they may have to spend 50% of their income for housing. It is both unfortunate and not unusual to find low-income and large families spending 50% or more of their income for housing.

Food

Food costs have been rising steadily, and have become a problem area in many budgets. An even greater problem is what we eat, where we eat and how much we eat. Americans are eating more and more meals at restaurants and fast food shops, which costs more than fixing the same thing at home.

We have also turned away from fixing meals from "scratch." Most Americans now eat convenience foods that are quicker to fix and cost more, and junk foods that offer little or no nourishment at high prices.

Most of us also eat too much. Some 30% of us are overweight, a fact that the American Medical Association has reported may be our nation's #1 health hazard. And as unlikely as it may sound, many overweight people are undernourished because they eat too much junk food and too little food which is truly nourishing.

A quick glance at shopping baskets in the supermarket will reveal how much of our grocery dollar goes for basic foodstuffs and how much goes for candy, snacks, soda, and convenience foods. Many families could probably cut their food costs by 25-50% with no loss in nutritional value.

A family of four can eat well on \$200 per month (1977 dollars) or less in most parts of the country. The same family of four could probably cut their food bill back to around \$170 with no loss in nutrition. The meals might, however, be quite plain.

Transportation

One hardly needs to mention the rapid increase in gasoline prices which keeps rising steadily. The federally mandated anti-pollution controls, to make things more difficult, lower the number of miles-per-gallon that cars get. As a result, the gasoline cost of driving has risen. Helping to offset this situation are the attempts by the car manufacturers to build lighter vehicles that do get better mileage.

Also, there are increases in costs of all things that are auto-related. Cars cost more. In 1968 a basic four door Dodge sedan cost about \$2,500. By 1973 the cost had increased to about \$3,500. In 1977, the cost for an equivalent car was about \$5,000.

Auto insurance costs have risen rapidly, too. Part of the increase has been attributed to the high cost of automobile repairs. Replacement parts such as bumpers, windshields, and fenders are simply much more expensive. Thus insurance premiums must rise in order to pay for such higher costs. These increases are paid for by consumers.

Car maintenance and repair has also risen in price. Cars today are much more complex than those of ten years ago. The parts to fix them cost more, and there are more parts to fix. The cost of labor has also increased greatly.

Perhaps the largest factor affecting most Americans' transportation costs is our attitude toward cars and their use. Few Americans today think of cars as just a form of transportation. A car is a badge of one's lifestyle. It has become a symbol, a way of communicating one's status in life to other people.

A quick look in a new car showroom will make this clear. Special paint stripes, opera windows, "appearance group", air conditioning, raised white-letter tires, chrome wheel rings, special "designer editions," denim upholstery, fake air scoops, "rallye wheels," stereo radios, tape players, sunroofs--all these are unrelated to a car's basic transportation function of getting from point A to point B. The average full-size American car is more a motorized livingroom than a device to transport people and cargo around efficiently. As a result, what we call "transportation cost" is made much more expensive for the sake of comfort, convenience, style and status.

We also use our cars more than is necessary. Most people who live on bus routes still drive alone to work. Most commuters have made no attempt to car-pool to and from work. As a result, many families have created a "need" for a second car. We will also drive four blocks to the store for one item, rather than walk.

The result of all the above attitudes and unnecessary use of cars is added expense. Most Americans could easily cut their transportation expense by 25-50% or more just by changing to a more efficient car and by planning how to use their car as little as possible.

Many clients who seek financial counseling have already made commitments to expensive cars. They are frequently stuck with a car loan that is much greater than the resale value of the car. Any mention of selling a car will usually not be taken seriously, because people attach a lot of meaning to their cars and the image the car projects. People are generally very resistant to trading down to a more economical car, or selling a second car. This is an area in financial counseling that rarely has any effect, although it has great potential for reducing expenses.

Medical and Dental

The cost of medical and dental care has climbed continuously for many years. These costs now are a major budget item for most families. Adequate health insurance gets more expensive and hard to obtain every year. One result of this has been that many families have cut back on health checkups and maintenance costs. The General Mills American Family Report (1974-75) reported that 18% of the people they surveyed were postponing medical and dental checkups.

In reality, the individual or family that does not have good medical insurance and that does not set money aside to pay for medical and dental care is asking for financial trouble. Postponing "minor" checkups may result in major medical or dental expenses. There are indications that unexpected medical expenses are the major factor in over half of the nation's individual bankruptcies.

There are few ways to reduce medical costs. Probably the most effective way is to keep as healthy as possible by eating good nutritious food and getting plenty of exercise and proper rest. The best way to cope with high medical expenses is to try to stay healthy and to plan ahead by getting good health insurance and/or setting aside money in advance for medical and dental expenses.

TURN TO APPENDIX I AND COMPLETE EXERCISE 3. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

PROBLEMS WITH DEBT

One of the more interesting ideas to emerge from the post-World War II economic boom in the United States is the new idea that people have about debt. The General Mills American Family Report (1974-75) stated that "According to the men and women interviewed in the Pilot Phase of this project, debt means falling behind in payments, not simply owing money" (p. 91) It seems that we have become so accustomed to owing money that we don't consider it a debt until we have a problem paying it back! But regardless of that new way of looking at debt, all discussions of debt in this module will mean money owed, regardless of to whom or how much.

How many Americans have problems with debts? It would be impossible to state an exact number. The General Mills study indicated that 27% of the families had greater debts than a year ago and that 18% are late in paying their bills. A "guesstimate" that one in five families (20%) has difficulty paying some of the bills most of the time would probably be fairly accurate.

What kinds of problems do these people have with debt? Perhaps the most frequent problem is simply too much debt. Like sour cherries or green apples, one can get too much of a good thing, and the result can be a very uncomfortable situation.

How do people get too much debt? There are a number of ways that this situation can develop. Following is a discussion of some ways in which debts can occur or build up past the point of one's ability to pay them back.

Using Credit as an Alternate Source of Income

This problem is found with people who, when they run out of money, use credit cards or charge accounts to continue buying items that should be included in living expenses. When the checking account balance is zero and the family wallets, purses and pockets are out of cash, some people keep on buying everyday items on credit.

The pattern that leads up to the financial problem stage is easily seen. The balance of various accounts keeps climbing higher every month. Each month, the person pays the minimum payment of a partial amount of the total balance. When accounts approach their approved limit, these people often request that their credit limit be increased. If the creditor won't increase the credit limit, they often apply for other credit cards or accounts at other stores. Thus, they continue to have ways to obtain goods when cash runs out.

Eventually, the minimum payments plus the interest on all these accounts gets to be a major expense which cuts even further into the month's cash. At this point people frequently start missing monthly payments or paying less than the minimum amount due each creditor.

Shortly after this point, the debtor may start receiving past due notices for bills or phone calls from bill collectors. Sometimes this leads people to seek financial counseling. By the time this stage is reached, people frequently owe as much as \$2,000 or more just on their various credit card and charge accounts. They usually have installment loans as well. The total indebtedness (excluding home mortgage) of people seeking counseling is frequently about equal to their annual income.

Solution. The use of credit cards and charge accounts must be stopped, completely and immediately. It is wise for these people to cut up their credit cards and send them back to the creditor with a letter explaining their situation. Living expenses should be cut to the minimum and all available funds should be put toward repayment of the credit accounts.

Setting up House

This is a common problem with young married couples, particularly those beginning to have children. The general development of this problem occurs within the first two or three years of marriage, or within a year or two after the birth of the first child.

Most of these young people, when single, lived at home or in furnished apartments. After marriage, the couple moves to a larger apartment, or perhaps buys a house. Then they buy a new car, furniture, appliances, a color TV, perhaps a stereo system, all on installment loans. Generally speaking, what they are trying to do is to start out with all the same conveniences and comforts that it took their parents twenty years or more to acquire.

One day they find that they can't pay all the bills. If they would sit down and add everything up, they might find something like the following:

Car Loan	\$170
Furniture Loan	\$ 75
Stove & Refrigerator	\$ 50
Color TV & Stereo	\$ 30
Dishwasher	\$ 25
Total	<u>\$350 per month</u>

Sometimes this debt load, in itself, is enough to cause problems. More often the case is one where both partners have been working, but before the loans are paid off the first child arrives. Say the husband makes \$800 per month, the wife \$500. When the wife stops working, it's crisis time. Suddenly the family income is largely committed to monthly payments; in this case the debt payments total almost 45% of the husband's income. And even if the wife returns to work in a few months, child care often adds \$200 or more a month to the couple's expenses.

Solution. Frequently in these cases a large portion of the loans has already been paid. So, although the monthly payments are high, the total amount of the remaining debt is not too great. Debt consolidation is a good way to lump all the debts together and extend the payments out over three or four years. This may add a substantial amount of interest cost to the debt, but it will frequently lower the monthly payment to around half of the original total.

In cases where the loans are still fairly new and little of the balance has been paid, the problem may have no easy solution. Some things that may be considered are selling some of the items, seeking financial help from relatives, moving to less expensive housing, or the husband may start looking for an additional part-time job.

TURN TO APPENDIX I AND COMPLETE EXERCISE 4. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

Impulsive/Compulsive Spending

Impulsive spending is spar-of-the-moment purchasing of something that is not needed and that was not planned to be purchased. An example of impulsive spending might be a person in a department store who sees a wall hanging with a catchy phrase. The person thinks, "My, isn't that cute," and though the shopping trip was intended for the purchase of something else, the person buys the wall hanging as well.

While impulsive spending is on a whim, or a spontaneous desire of the moment, compulsive spending is more a long-term pattern of purchases that serve to fulfill some deep personal need. There are many different compulsive spending patterns. One pattern of compulsive spending is seen with people who frequently become depressed and who, in order to make themselves feel better, go out and "blow" some money on needed items.

Another common pattern of compulsive spending is found in people who have feelings of inferiority and who compensate by dressing in the latest fashions, driving flashy cars, and buying all kinds of showy things to create an image of success and well-being. Often these people are not very successful financially and they go deep in debt trying to keep up with, or ahead of, the "Joneses."

Both of these patterns, impulsive and compulsive, can be causes of financial problems. More important to a financial counselor, though, is the fact that these patterns--if they persist--can ruin the best planned rehabilitative budget.

Solution. A financial counselor should look for any indication of compulsive or impulsive spending patterns of clients. When the counselor finds evidence of either, it is wise to discuss with the client the effect of the pattern on the client's financial plan. It should be emphasized that if the pattern is not broken, it may ruin any attempts at developing a plan to get the client's financial situation straightened out.

Some compulsive spending habits may have very deep and hidden origins. If the client is unable to break the pattern, it may be necessary to recommend that the client consult with some kind of mental health therapist. If the success of a client's financial recovery depends on breaking a long-term pattern, a psychologist, psychiatrist or family counselor may be the only kind of professional with the training to effectively help the client. Financial counselors are usually not trained therapists. They should know their limitations and refer clients to other professionals when a problem is beyond their ability to help.

Lack of Sales Resistance

We are all aware of those super-special sales people who could "sell ice cubes to Eskimos." These silver-tongued smooth talkers leave behind

them a whole flock of weak-willed consumers who are now the proud owners of a genuine "widgit-master" that costs only \$4.95 a week for the next year and will be used once or twice, then thrown away.

Then there is the homeowner who is approached by a person who offers to paint his house for only \$200. Thinking that this is a real deal, he signs a contract, only to find out that the \$200 is the charge for labor. The fine print in the contract also obligates him to buy 20 gallons of low quality paint at \$15 per gallon.

Both of the above examples relate to the level of a person's consumer awareness. Many people are "suckers" for a good sales pitch, or they are looking to find something for nothing. P. T. Barnum probably summed up this problem best by saying, "There's a sucker born every minute, and two to take 'em." Many people seeking help with financial problems have debts that were unwisely contracted.

Following are some typical examples:

- A welfare mother who bought a vacuum cleaner costing over \$500 from a door-to-door salesman.
- A man who was already having trouble paying his bills who was so impressed with a "factory representative's" sales pitch that he bought his wife an \$800 microwave oven.
- A severely overindebted man who bought a new car because the salesman said he had only one of last year's model new cars left. This car was priced \$1500 less than the new model and "He wouldn't get another deal like this in his entire life."
- A dissatisfied worker who paid \$1200 for a correspondence course in airplane mechanics. The course consisted of twelve government publications worth about \$30, and twelve true and false tests.
- A woman who "invested" \$1200 to start a franchise business to sell housewares for additional income. She found that her town already had numerous franchises and she couldn't even sell enough to recover her "investment."
- A welfare mother who bought an expensive set of encyclopedias from a door-to-door salesman.
- A young woman with limited income who bought an \$800 cookware and china set from a door-to-door salesman.

This list could be continued on with recreational land sales and a host of other types of "deals" that people would do well to not spend their money on. When a financial counselor finds evidence that a client

is easily taken in by a smooth sales pitch or a once-in-a-lifetime "bargain," it is best to spend some time teaching the client how to resist these things.

If a financial counselor is willing to spend the time and energy required to seek solutions to a client's financial problem, it is best to also make sure that the client develops enough sales resistance to avoid further unwise purchases. One big unwise "deal" could be enough to ruin a well-planned rehabilitative financial program.

Solutions. First, some of the types of debts in the examples above may have been contracted by illegal or unethical means. In cases where this is suspected, the client can complain to a state consumer protection agency. Another effective way of determining whether the debt is legal or not, is for the client to apply as a wage-earner under Chapter XIII of the Bankruptcy Act. If a Chapter XIII plan for court-supervised debt repayment is granted, the court analyzes each of the client's debts and determines whether it is a legally owed debt or not.

Second, the counselor must build sales resistance into the client, to prevent further problems of being taken in by a smooth sales pitch or getting stuck with another unneeded "bargain."

TURN TO APPENDIX I AND COMPLETE EXERCISE 5. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

Uninsured Losses

Certain events involving the loss or damage of uninsured property can result in a substantial amount of debt. Some typical events are listed below:

- Auto accidents. The uninsured motorist may sustain personal property loss in the form of damage to his/her own car. Other liability may be assessed for damage to property or another auto.
- Fire. Personal property may be destroyed in a fire.
- Theft. If personal property insurance is not in force, a home burglary or theft of a car may result in a substantial loss. The victim may need to go in debt to replace needed items.

Uninsured losses do not always need to result in a great deal of debt. Many items of property may be replaced with used or donated items until money can be saved for the purchase of new replacements. It may be best to do without some items until one's financial condition permits their replacement.

Solutions. For the individual or family already beset by financial problems, uninsured losses may be a serious blow. If property must be replaced, an alternative is to go to such groups as the Salvation Army, Goodwill or the St. Vincent dePaul Society and request that used items be donated to replace things that the family cannot afford to replace.

If a home is damaged, many communities have "project repair" type programs, often through a Community Action Program. From this source property repairs may be made on a no-cost or low-cost basis. Churches may also be approached for aid in crisis situations of this nature.

There is, however, only one long-term solution to this problem. The family's budget should be revised to provide for adequate insurance to cover any future losses of this type.

Repairs

People whose financial life is lived on a hand-to-mouth basis, who never set aside any money for a "rainy day," may be hard pressed when repairs to their property are necessary. Some of the kinds of problems that can occur are:

- the car breaks down
- the refrigerator quits working
- the furnace won't heat
- the house needs a new roof
- some electrical wiring burns up and must be replaced.

Solutions. If the problem is an immediate crisis, such as a furnace not working during a cold winter, various emergency assistance programs should be contacted to determine if they can help. Check with the mayor's office to find sources of assistance. If the family is already in difficult financial straits and cannot find emergency assistance repairs, a counselor would do well to explore every alternative.

One financial counselor whose client's furnace quit during a cold Wisconsin winter, arranged for the furnace to be temporarily replaced with a donated wood stove that was installed with free labor by a group of concerned citizens. The family had to close off part of their house to conserve heat, but they made it through the rest of the winter without further problems.

Still, the long-term solution is to re-structure the budget to allow money to be set aside in preparation for such an emergency. The prevention of financial problems is less painful than their cure.

Medical Bills Piling Up

The family that does not include medical expenses in their financial plan often finds that there is no money to pay for medical bills as they occur. Traditionally, medical billing has been very low-keyed, and people who didn't pay promptly were not hounded for payment. In recent years this has become less and less true, as more medical billing is handled by professional collection services.

Some families run up hundreds of dollars in medical bills before a doctor or clinic seriously tries to collect. Some doctors or clinics then refuse service if no payment is made. Then, people often go to another doctor or clinic and run up a new set of bills. In this way many people accumulate hundreds, even thousands of dollars of medical bills toward which they are making no payments or only token payments of a few dollars a month.

The problem with medical bills often occurs when a doctor or clinic that has not been receiving payments turns the account over to a collection agency. At that point, the bill collector will frequently ask for immediate payment in full, or large enough payments to fully retire the debt in a few months. If payments are not received the collector may then be authorized to go to court and seek to have the debtor's wages garnisheed for payment of the bill.

Solutions. If the client sees a financial counselor before a major crisis with medical bills occurs, the counselor should see that the new budget contains significant fair-share payments on outstanding medical accounts. This usually prevents the accounts from being turned over to a collection agency, or an action taken to court.

If the crisis has already occurred, the counselor could negotiate with the collection agent for payments that are realistically possible. If cooperation is not received or if the client's wages are already being

garnisheed, the client's best alternative may be to file for a wage earner's debt repayment plan under Chapter XIII of the Bankruptcy Act. In this way, the court supervises the debt repayment while ensuring that the family retains enough money to live on. The court also prohibits creditors from contacting the debtor in any further attempts to collect the bill.

TURN TO APPENDIX I AND COMPLETE EXERCISE 6. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

Adult Toys

There is a class of goods that can only be defined as luxuries. These are items that no one needs, but yet are nice to have and fun to play with. For lack of a better term they are referred to as "adult toys." In this category fall some of the following things and probably many more that you could think of.

- Campers, motorboats, sailboats, exotic sports cars, antiques, fancy bowling balls, motorcycles, snow mobiles, personal swimming pools and saunas, special cameras, expensive TV sets and stereo systems, race cars, microwave ovens, health spas, coin and stamp collections, a private wine cellar, riding horses, a summer cottage or winter retreat. The list could go on, but by now you should all be aware of what "adult toys" are.

For the very rich, these playthings are a part of life. To them, owning one or all is no problem financially. Then there's the rest of us. Most average Americans think about these things and would love to be able to afford some of them. A few Americans of lesser financial means even try to appear that they can afford these toys, and they are willing to go over their heads in debt to have them. Sometime later, they may need to seek out a financial counselor for help in paying the debts for their luxuries.

One of the biggest problems for a financial counselor with a client like this is often the counselor's own attitudes and beliefs. It is much too easy for the counselor to start thinking, "This client doesn't make much more money than I do. How can (s)he possibly think (s)he can afford this luxury?" When a financial counselor stops counseling and starts sermonizing, this is the surest way possible to turn the client off. The client needs assistance with a problem, not a lecture on the evils of over-indulgence or high living. A counselor would be wise to examine his or her own feelings about such a client and see that the counselor's own morals and beliefs do not become involved in this kind of situation (or any other situation, for that matter).

Solutions. Fortunately in most cases of this type, the client has a higher than average income. Also, most clients of this type have quite a bit of "fat" in their expense budget, since luxury living tends to be general, rather than limited to one specific item. If the client is willing to make sacrifices to keep the luxury item or items, living expenses can be cut way back, freeing up enough money to make adequate payments on debts.

In other cases, such as when the client's income drops, or when illness or injury occurs, the best solution may be to give up the luxury item--sell it and apply the money to the remaining loan balance. In some cases, a wage earner plan under Chapter XIII of the Bankruptcy Act may provide for court supervised debt payments at a level that the client can afford.

Often, the creditor will be willing to adjust monthly payments down to a level that the client can afford, particularly in cases where the debtor has a previous history of responsible payment of debts. If the debtor has been a long-term customer in good standing (many of these people are big users of credit) the creditor will usually be understanding about the client's problem. Creditors would often rather cooperate and help the client through the crisis than force the client to sell the item or go into bankruptcy, since if they apply too much pressure they could lose a good customer.

Some counseling in the area of the reality of what the client can afford is of value for the client's long-term financial rehabilitation. Again, this is not to be sermonizing or moralizing. A better way to approach this subject is by examining the client's long and short-term goals and determining whether the luxuries that they would like to purchase are realistic for their level of income. It is also wise to examine short-term or immediate luxuries in terms of whether they are consistent with the client's long-term goals.

TURN TO APPENDIX I AND COMPLETE EXERCISE 7. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

Divorce

Divorce is a frequent cause of financial problems. The process of splitting a family into two parts with separate expenses usually means that the same amount of income that once provided for one household must now support two households.

The actual dollar cost of most divorces is not extremely great. Legal fees are usually less than \$500 in all but the most heatedly battled divorces. Still, the legal costs add a financial burden to an already difficult situation.

Divorces where the couple have no children generally cause less financial problems. Property is usually divided in such a way that each partner has less assets (roughly half) than the couple had together. In present practice there is rarely an amount of continuing alimony awarded. However, it is frequently found that one partner must assume total responsibility for all the couple's debts, either by court order or when one party moves out of state.

Divorced persons without children usually are left to make their own way in the world. Each person must live on whatever income (s)he can personally make. For couples who both worked, they must now reduce their standard of living to reflect both the additional expense of maintaining two households and to reflect lower income for each household.

Divorced couples with children generally have greater financial problems. In most cases, custody of children is granted to the mother and the father is then ordered by the court to make child support payments until the children reach adulthood. This adds a long-term fixed expense to the father's financial future.

The mother usually finds that although she receives child support, she rarely receives any alimony that would help to pay for her living expenses. This means that she must work in order to support herself. Some financial problems that affect a divorced mother are:

1. Frequently she has limited job skills and experience, especially where she married and had children right after high school.
2. She is generally paid less than a man.
3. She often has the additional expense of child care to pay while she is at work.
4. She may lack self-confidence in her job skills.
5. She may choose a lower paying job due to conflicts between work and child care responsibilities.
6. She may need to return to school to develop job skills.

Solutions. Divorce is a major life change and each partner must usually develop a completely new money plan to reflect the major changes that are occurring in their lifestyle. The biggest complicating factor is usually the fixed expenses that the couple had while married. In some cases an expensive house must be sold when one partner can no longer afford to keep up the payments, taxes and utilities. Divorce sometimes leads one or both partners to bankruptcy when the financial outlay for debt payments can no longer be met by the partner on whom they are laid.

The only long-term solution to financial problems caused by divorce is to develop a completely new spending plan that is within the new financial capacity of the person. This may mean a great change in lifestyle since each person's financial resources are usually much smaller after a divorce.

TURN TO APPENDIX I AND COMPLETE EXERCISE 8. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

DIFFERENT WAYS OF LOOKING AT FINANCIAL PROBLEMS

We have now examined various types of financial problems that people have. Some of these problems are caused when income decreases or stops, leaving people unable to pay debts that they previously could afford. Other problems are found with the debts themselves. These are the types of problems that occur when people simply contract more debts than they can realistically afford.

Frequently you will find discussions of debt problems presented in a way that assigns the blame for the problem as external or internal. An external cause is usually thought of as something beyond the affected person's ability to control, such as being laid off at work or becoming sick or injured. Internal cause is usually assigned to debt problems resulting from what the individual does willingly, such as compulsive or impulsive spending, filing for divorce, buying luxury items that are beyond one's ability to afford.

What does this way of looking at financial problems mean to a financial counselor? First of all, external and internal causes often have a great degree of overlap. It is frequently difficult to determine how much of the cause resulted from external factors, and how much from internal. Take the case of a person who is laid off from work. Perhaps the person was doing sloppy work, or was often absent from work, or was drinking on the job, etc. Was this person laid off strictly because of economic reasons or due to poor work habits?

Take the wage earner who has a crippling heart attack. Perhaps this person is a "workaholic" and has overworked for years. The result is a heart attack. Is this an external or internal cause?

Second, even if the cause of a financial problem can be determined to have occurred from totally external or totally internal factors, what difference does it make to a financial counselor? NONE, whatsoever! Or at least it shouldn't make any difference.

Regardless of the why or how behind the financial problem, the existing fact (reality) is that the client has a financial problem. The only way the problem can be solved is if the client takes full responsibility for the problem and does what is required to solve it. All the counseling in the world is fruitless if the client is not willing to change what must be changed to create an effective financial plan.

The common result of assigning blame to external or internal causes of financial problems is that the counselor judges the client. In this way the counselor comes to sympathize with clients whose problems are seen as resulting from factors beyond their control. And frequently the counselor will blame the client whose financial problems are self-imposed. In this way the counselor sets up categories of "good" and "bad" clients. The counselor evaluates each client's case on the basis of the counselor's values and morals and as a result, "good" clients get better treatment than "bad" clients.

Every client deserves equal personal respect and quality of counseling. Whether the client is rich or poor, black or white, male or female, intelligent or not, clean or dirty, well dressed or in rags, a counselor should treat all clients equally. Judging clients on the basis of the origin of their problems usually results in preferential treatment of some clients and poor treatment of others.

By using the less personal method of examining income, expense and debt structures, a counselor can find various factors that caused the financial problem that are less likely to lead to evaluating the client. And when proposed solutions are presented in an income vs. expense and debt structure, it is easier for the counselor to attack financial issues rather than personal ones.

There are basically two ways of approaching financial problems. One way can be thought of as the "Band-Aid" approach. This is when a counselor finds a specific problem and offers a simple solution without looking carefully at the client's total financial situation. This approach is used by many judgmental counselors when they have a case where the client has purchased a luxury item that (s)he can't afford. The counselor's general attitude in this type of case might be, "Look, dummy, you can't afford it, so sell it and let it teach you a lesson."

The "Band-Aid" approach is also frequently used by "counselors" who automatically place clients on a debt management plan, regardless of their problem. Obviously, not every financial problem can be solved by negotiating lower payments to creditors.

If a patient had a running sore on an arm that was caused by skin cancer, a doctor would be less than effective to simply clean it up and put on a Band-Aid. Similarly, a client with financial problems does not receive much help from a financial counselor who deals only with an immediate small problem and doesn't take the time to discover the underlying factors in the client's situation.

The other way of approaching financial problems is by looking in depth at the client's financial situation. In every case, the counselor should take the time to fully investigate each of the three areas--income, expenses and debt. This not only gives the counselor a total picture of the client's financial situation, it also has another advantage. By using this simplified approach the counselor can readily teach the client about these three basic components that make up a budget. By teaching the client the basic ingredients of budgeting, the counselor makes the client better able to see possible ways of solving the problem at hand and of avoiding future problems.

TURN TO APPENDIX I AND COMPLETE EXERCISE 9. When you have completed the exercise satisfactorily, return to the next page and begin the next section.

Summary

We have now examined a variety of types of financial problems that are frequently seen by financial counselors. We have discussed some specific problems as well as general types of problems. For use in financial counseling it is helpful to break a person's financial situation down into the three major budget components--income, expense, debt. Thinking of these components as being closely inter-related, and by looking at a balanced budget as a situation where income equals expenses plus debt payments, we can be better able to discover those factors that tend to "unbalance" a client's budget.

Also, by thinking of a budget as a balance among these three components, financial counselors are more aware of things that can be done to bring the budget back into balance. Generally speaking it is necessary to increase income and/or decrease expenses and/or debt payments.

This way of approaching financial problems has another advantage. It allows the financial counselor to concentrate on financial matters rather than on the personal characteristics of clients. This helps the counselor to avoid personal judgments about clients and keeps the counselor's own values and attitudes from forming a barrier to building an effective counseling relationship with clients.

A further advantage of using this approach to examining financial problems lies in its educational value. A counselor can use this framework to teach clients the elements of budgeting which aid the clients in understanding their present problem and in finding a solution. It also teaches them how to avoid future problems.

We live in a time that is filled both with uncertainty and with rapidly rising prices in many areas. Thus, we must be able to change in order to keep up with the times. In our financial dealings, the best way to make sure that we are able to deal with changing prices is to create a financial plan that is flexible.

When most of our paycheck is already earmarked for specific fixed expenses, we may find that we are unable to cope with either unexpected expenses or rapidly rising prices. In other words, when most of our income is committed to fixed expenses we have no budget flexibility. Frequently people whose financial plan is not flexible find themselves in financial trouble and seek counseling. It should be obvious to the reader by now that one goal of financial counseling is to build some flexibility back into the budgets of our distressed clients.

Factors Associated with Financial Problems

Research into financial problems over the years has found a number of characteristics that seem to be frequently associated with financial problems. The mere fact that a person exhibits one or more of these characteristics does not necessarily mean that the person does have or will have financial problems. However, people who have one or more of these characteristics (and particularly people who have many of these characteristics) are more likely to have financial problems than those who don't.

The following list is adapted from a Financial Profile: How to Identify People Likely to Have Financial Difficulty, by Frederick E. Waddell, an experienced researcher in the field of financial problems and consumer affairs. First, Mr. Waddell lists major factors likely to indicate financial problems:

1. A person who is highly vulnerable to events affecting financial stability, as indicated by:
 - a. Less than \$500 in liquid (cash) assets.
 - b. Installment debt that takes more than 12 months to pay back.
 - c. More than 20% of take-home pay committed to installment debt payments.
 - d. Skipping monthly debt payments to have enough money for living expenses.
 - e. Taking out new loans to pay off old ones (consolidation loans).
2. A person who takes out loans to pay for regular living expenses.
3. A person who gets behind in rent or utility payments.
4. A person who doesn't keep track of, or who doesn't know, how much monthly living expenses or total debt are.
5. A person who has impulsive or compulsive spending habits.
6. A person who reports that "something is always going wrong," such as:
 - a. Sickness
 - b. Pregnancy
 - c. Auto or other accidents or injuries
 - d. Auto or appliance breakdowns
 - e. Lawsuits or court judgments
 - f. No sales resistance

Other more general indications related to financial problems are found with persons who:

1. Have co-signed for another person's loan.
2. Seek a consolidation loan when income changes--either up or down.

3. Use credit regularly as a supplement to income.
4. Are between the ages of 18 and 37 (particularly between 20 and 24).
5. Are having marital problems.
6. Make no down payment on a loan.
7. Take out a loan on a used car, rather than a new one.
8. Have large families (more than average number of children and other dependents).
9. Are unskilled or semi-skilled (blue collar) workers.
10. Move frequently within a given area.
11. Have held their present job 3 years or less.
12. Live in a mobile home, rent part of another person's dwelling, or receive housing as a part of their income.

This is a fairly complete list of factors that accompany financial problems. Added to this list could be a few special problems that usually indicate the presence or likelihood of financial problems:

1. A person who has recently been divorced.
2. A person or family with problems of alcoholism or drug addiction.
3. A person who gambles.
4. A person who physically abuses members of the immediate family (child abuse, wife beating).

The presence of one or more of these characteristics does not in itself indicate that a financial problem exists and a financial counselor should be aware that these factors do not determine a financial problem. Yet, the more of these factors a person or family has, the greater is the potential for financial problems to exist or occur.

APPENDIX I

EXERCISES

NOTE: There is only one set of exercise sheets provided for this module. If more than one person is expected to use this module, we recommend that you make and use photocopies of the exercises so that the module can be re-used by others.

EXERCISE 1

1. What three events can occur that tend to unbalance a person's or family's budget?

a. _____

b. _____

c. _____

2. What is the goal of financial counseling?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 2

1. What are the general ways to deal with a decrease or loss of income?
2. What two particular problems often cause difficulties for people with irregular incomes?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 3

1. What is usually the underlying cause of financial problems that result from crises?
2. Why are people with high fixed expenses more vulnerable to financial problems?
3. List some areas in which people frequently have expense problems.
4. Many Americans put a high value on comfort, convenience and style. How do these values affect one's expenses?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 4

1. About how many Americans have trouble paying their bills?
2. How are problems solved that result from using credit as another source of income?
3. Why do young couples find it difficult to set up a household?
4. Why do couples frequently have financial problems when they start having children.?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 5

1. What is the difference between impulsive and compulsive spending patterns?
2. What two kinds of people show a lack of sales resistance?
3. How can these types of clients be helped by a financial counselor?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 6

1. For a person who is already in financial trouble, what can one do about uninsured losses or emergency repair?

2. What is the underlying problem for people who have a financial crisis due to uninsured losses, repairs or with a pile of unpaid medical bills?

(The recommended answers are on page 54. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 7

1. What are adult toys?
2. What can form a barrier between a financial counselor and a client who has "adult toys?"
3. What kinds of solutions are possible for adult toy owners with financial problems?

a)Short term:

b)Long term:



(The recommended answers are on page 55. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 8

1. What major financial problem results from divorce?

2. What is the easy way of solving divorce-related financial problems?

(The recommended answers are on page 55. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE 9

1. What advantages are there to analyzing financial problems by the income/expense/ debt framework rather than other methods?
2. What advantages are there to using an indepth financial counseling approach?

(The recommended answers are on page 55. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

APPENDIX II

RECOMMENDED ANSWERS

Exercise 1

1. a) Decrease or loss of income
b) Increase in living expense
c) Increase in debt payments
2. To balance the client's budget, make income equal to expenses plus debt.

Exercise 2

1. Stabilize income; look for additional sources of income. Reduce expenses. Reduce debt payments.
2. a) Not enough savings b) Estimating income too high

Exercise 3

1. Failure to plan ahead for emergencies
2. Because their budgets are less flexible, less able to cope with unexpected expenses.
3. Shelter cost, food, transportation, medical and dental.
4. Comfort, convenience and style increase costs.

Exercise 4

1. About 20%
2. By stopping all use of credit cards and charge accounts until they are paid up.
3. Because they can't afford to buy everything right away.
4. Because they often lose income while their expenses increase.

Exercise 5

1. Impulsive is spur-of-the-moment, on a whim. Compulsive is more from internal deep desires for satisfaction.
2. a) Those that fall for a good sales pitch, b) Those that are looking for bargains, especially "something for nothing."
3. The counselor must discover the impulsive or compulsive patterns or the lack of sales resistance, then help the client to overcome the problem.

Exercise 6

1. Try to replace or fix the damaged item cheaply or with a donated replacement.
2. Failure to plan ahead.

Exercise 7

1. Unneeded luxury items.
2. The counselor's attitudes and beliefs about how one should spend one's money.
3. a) Short term: Cut back on expenses, sell the item, arrange lower payments with the creditor.
b) Long term: Get the client to look at reality: how much (s)he can afford, and analyze the luxury purchase's place in the client's long-term goals.

Exercise 8

1. After divorce the family has expenses for two households rather than one (usually on the same income).
2. There usually isn't an easy way. It usually requires a complete change of life-style for both partners.

Exercise 9

1. a) It makes it easier to find the cause of the problem.
b) It exposes financial issues rather than personal factors.
c) It indicates potential solutions to the problem.
2. a) It gives both counselor and client a better overall picture of the client's financial situation.
b) It teaches the client the basics of money management.